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SENSITIVE

DEPT FOR H FOR RICHARD FONTAINE, ELLEN BRADY OF SENATORS'
MCCAIN/GRAHAM

E.O. 12958: N/A

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SUBJECT: SCENESETTER FOR SENATORS MCCAIN AND GRAHAM'S
DECEMBER 1-3 VISIT TO IRELAND

1. (SBU) A background paper follows, describing key political concerns. We would also note that the Northern Ireland peace process is at a critical juncture, and the final results of the process begun at Leeds Castle might be announced during your visit.

Political Background

2. (SBU) Ironically, the party that has led Ireland through most of the Celtic Tiger era, Fianna Fail, has seen a recent erosion in its political support. In the June 2004 local and European Parliament elections, Fianna Fail lost a number of seats to opposition parties, led by Fine Gael and the upstart Sinn Fein. Commentators attributed Fianna Fail's poor showing to the electorate's sense that not all segments of society have shared the benefits of the Celtic Tiger economy, as reflected in growing crime rates and other social problems. In a bid to re-energize the party and government ahead of the 2007 general elections, Prime Minister (Taoiseach) Bertie Ahern re-shuffled his cabinet in late September. The move presages an effort by Fianna Fail to recast its image as a party more attuned to social concerns.

The Government Budget

3. (SBU) Estimates for the 2005 government budget, released on November 18, set forth Fianna Fail's economic priorities in its bid to rebuild political support. Although a budget deficit was originally forecast for 2004, increased revenues tied to economic growth and one-off tax collections on off-shore bank accounts will yield a year-end budget surplus of 0.3 percent of GDP. Some ruling party members have pressed new Finance Minister Brian Cowen to use this unexpected windfall to address hot-button social issues, including Ireland's dysfunctional health care system and outdated transportation infrastructure. The Irish Central Bank and most economists, however, have cautioned against steep increases in government spending that could fuel inflation, particularly with robust GDP growth predicted for 2005. In recent public comments, Minister Cowen has indicated that the budget will offer tax relief for lower income groups, but will avoid inflationary pressures that could raise wage demands and erode Ireland's competitiveness. On December 1, the national budget will be released, providing specific details in regards to program funding.

Ireland-Militarily Neutral

4. (SBU) Ireland is militarily neutral, and does not have troops in Iraq. Ireland continues, however, to allow the US military to refuel at Shannon airport, and to support major peacekeeping operations in areas such as Kosovo, Afghanistan, Lebanon, and Liberia, where Ireland is the largest non-African contingency. (Under Irish law, troops cannot be deployed without a "triple-lock": UN-authorized mission, Government/Cabinet-level decision, and vote of Parliament). The use of Shannon places great pressure on the government, and elements of the public see this use as a violation of neutrality. During the Reverend Jesse Jackson's recent trip, the press quoted him as saying that the use of Shannon by US military aircraft puts Ireland "in the line of fire" from terrorist organizations. Parliamentarians raised this with the Taoiseach on November 23. Parliamentarians regularly question the government on the number of flights allowed and on allegations that prisoners have traveled through Shannon en route to Guantanamo. Shannon airport has not been used to transit enemy combatants to or from the detention center at Guantanamo, and it will not, without US consultations with the Irish government. Also, on December 1, Irish courts will pass sentence on a protester convicted of damaging a US aircraft at Shannon.

Northern Ireland Negotiations

15. (SBU) Negotiations on a final settlement for Northern Ireland continue to be a hot topic. Parties are reviewing a joint proposal from the Irish and UK governments that would restore Northern political institutions over the coming months. This proposal builds upon progress that was achieved in the September Leeds Castle talks, where Sinn Fein signaled the IRA's willingness to cease paramilitary activity and decommission weapons as part of a final deal. Northern Ireland is the fastest growing region in the UK, and a political settlement would help to accelerate growing inter-Ireland trade and investment.

Ireland and the War on Terror

16. (SBU) The US embassy and Ireland enjoy a good working relationship and information sharing in the ongoing war on terror. On November 23, the Taoiseach announced that the Irish national police are monitoring Al-Qaeda operatives in Ireland and one Irish citizen has been designated as a terrorism financier by the US authorities. Without UN designation, currently there is little the Irish government can do in terms of prosecuting suspects of terrorism financing because legislation to criminalize international terrorism has been hung up in the Irish Parliament for over two years. Ireland is party to five of the twelve UN Conventions Against Terrorism, but human rights and privacy concerns have stalled movement on legislation to allow Ireland to become party to the remaining seven. This legislation is being discussed currently, and is expected to pass before the year's end.

Ireland -- A Confident EU Member State

17. (SBU) Ireland's economic and diplomatic successes have boosted the country's standing in the EU and have given Irish citizens unprecedented national confidence. In less than a generation, Ireland has grown from one of the poorest EU Member States to one of the richest (in GDP per capita), largely on the strength of government policies that espoused open trade and investment, low corporate taxes, good labor relations, low government debt, and prudent use of EU support funds. Although the Celtic Tiger stumbled somewhat with the post-9/11 global slowdown, a surge in housing construction has Ireland on track to achieve roughly 5% annual GDP growth in 2004, the highest in the EU. Moreover, Ireland won high marks in Europe for its recent EU presidency, which saw the accession of ten new EU member states, the successful negotiation of the EU Constitutional Treaty, and the launch of the U.S.-EU Trans-Atlantic Economic Partnership. These accomplishments have contributed to Ireland's self-image as an effective broker within the EU and a role model for new EU Member States.

Links with the U.S.

18. (SBU) While Ireland is a player in the EU and continues to benefit from EU markets and support funds, Irish leaders attach equal importance to relations with the United States. Beyond long-standing cultural ties, U.S. trade and investment have been the twin engines of the Celtic Tiger economy. There are roughly 570 U.S. firms operating in Ireland, employing over 90,000 people and accounting for a third of Ireland's annual exports. These firms include most major biotechnology, IT, and financial services companies, which use Ireland as a gateway to EU markets. Last year, new U.S. investment in Ireland reached \$9 billion, compared with \$3.8 billion in China. The central role that U.S. businesses have played in Ireland's economic transformation, however, is a story not often told by the Irish media, which tend to take a negative view of the United States, particularly our efforts in Iraq.

KENNY